

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, April 19, 2006 – 9:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Lyle W. Hillyard
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Sheryl L. Allen
Rep. Tim M. Cosgrove
Rep. Glenn A. Donnelson
Rep. Craig A. Frank
Rep. Gregory H. Hughes
Rep. Fred R. Hunsaker
Rep. Bradley G. Last
Rep. Rebecca Lockhart

Rep. Rosalind J. McGee
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Patrick L. Painter
Rep. Gordon E. Snow

Members Absent:

Rep. Ralph Becker

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Harper called the meeting to order at 9:10 a.m.

MOTION: Rep. Donnelson moved to approve the minutes of the January 11, 2006 meeting. The motion passed unanimously with Sen. Dmitrich, Pres. Valentine, Rep. Allen, and Rep. Hughes absent for the vote.

Mr. Howe distributed and discussed "Items Assigned by the Legislative Management Committee" and "Reports/Studies Required to be Presented to the Revenue and Taxation Interim Committee." He explained that there is only one study required by statute for the 2006 interim and this concerns the sales and use tax exemption for certain services and accommodations on which the Navajo nation also imposes a sales and use tax.

2. Revenue Update

Mr. Howe distributed and discussed "Utah Economic Update - April 2006." He reviewed recent trends in Utah's gross taxable sales, employment growth, oil and natural gas exploration and production, and growth in new housing units.

Mr. Dean distributed and discussed "TC-23 Monthly Revenue Summary." He explained that combined General Fund/Uniform School Fund revenue collections to date are \$128.7 million above forecast.

Sen. Hillyard asked if individual income tax revenues would remain above forecast after individual income tax refunds were issued. Commissioner Palmer DePaulis and Ms. Leslie Katayama, Tax Commission (Utah State Tax Commission), explained that the forecast accounts for individual income tax returns that are yet to be processed.

Sen. Stephenson asked if the state sales and use tax revenues listed on the TC-23 include earmarked state sales and use tax revenues. Comm. DePaulis replied that it does not but that the Tax Commission could provide an accounting of earmarked state sales and use tax revenues.

3. Uniform Statewide Sales and Use Tax Rate

Rep. Harper introduced this item.

Mr. Howe distributed and discussed "Combined State and Local Sales and Use Tax Rates." He also distributed and discussed "Sales and Use Tax - Options for a Uniform Statewide Sales and Use Tax Rate" which describes four options for implementing a uniform statewide sales and use tax.

Sen. Stephenson spoke in favor of implementing SST (Streamlined Sales and Use Tax) and a uniform statewide sales and use tax rate. He asked the Chairs what the Committee could do to continue discussions of implementing SST and a uniform sales and use tax rate.

Sen. Bramble said that he supports complete implementation of SST and appreciates the significant time that Rep. Harper has spent on this issue. He said that many requirements of SST remain in the Utah Code and that more effort is needed regarding implementation of destination-based sourcing.

Rep. Harper explained that one problem preventing full implementation of SST is the lack of adequate software for vendors. He said that two companies have recently been certified to provide such software and that a third company expects to be certified soon. He said that the two significant obstacles to nationwide adoption are destination-based sourcing and vendor compensation. He said that states with large populations are waiting for these two issues to be resolved before becoming full participating members.

Mr. Jim Olsen, Utah Retail Merchants Association, spoke in favor of SST. He explained that he was a delegate to the Implementing States but that it has been replaced by a Governing Board that does not include members of the private sector. He said that he is a member of a business advisory committee to the Governing Board. He said that the passage of 2006 General Session H.B. 109, "Sales and Use Tax - Food and Food Ingredients and Local Taxes" has raised questions regarding whether certain definitions in this bill comply with SST. Mr. Olsen also spoke in favor of a single statewide sales and use tax rate because it would assist in the full implementation of SST.

MOTION: Pres. Valentine moved to ask the Legislative Management Committee to allow the Committee to study and make a recommendation on the definition of food and bundled transactions. The motion passed unanimously with Sen. Dmitrich, Rep. Hughes, Rep. Lockhart, and Rep. Painter absent for the vote.

4. Amendments to the Individual Income Tax

Mr. Dean distributed and discussed 2006 General Session 2nd Substitute S.B. 242, "Tax Revisions" and "2006 General Session 2nd Substitute S.B. 242, Tax Revisions - Summary of Key Provisions."

Mr. Howe explained that the bill distributed to the Committee includes amendments adopted by the House Rules Committee and on the floor of the House of Representatives during the 2006 General Session.

Rep. Allen said that on the last day of the General Session a chart was distributed showing that taxpayers with moderate incomes who are retirees could pay more in state individual income tax under S.B. 242. She asked whether any additional studies are being conducted to confirm that this data is correct.

Mr. Robert Spendlove, Governor's Office of Planning and Budget, explained that during the General Session his office did not have access to a complete set of individual income tax returns. He said that since the General Session ended, an analyst in his office now has access to all individual income tax return data. He said they found that certain retirees do pay more under S.B. 242 and that another tax credit could be adopted to solve this problem.

Sen. Bramble commented that one solution would be to apply the current retirement income deductions only to those taxpayers who currently claim the deductions. Taxpayers who retire in the future would be ineligible to claim the deductions.

Sen. Hillyard said that different types of retirement funds should not be treated differently for state individual income tax purposes and asked if someone could comment on this.

Mr. Roger Tew, citizen, discussed a prior lawsuit involving the Tax Commission and certain taxpayers who received retirement income on the basis of their previous employment with the federal government.

Comm. Pam Hendrickson, Tax Commission, explained how \$35 million dollars was mistakenly omitted from revenue effect estimates for S.B. 242 that were prepared by the Tax Commission.

Rep. Snow said that the committee should carefully review each existing deduction from federal taxable income, addition to federal taxable income, and individual income tax credits. Sen. Bramble replied that the Committee intends to conduct such a review.

Sen. Hillyard suggested that a study be undertaken to review the effects of similar individual income tax changes that have recently been adopted in other states. He asked about the effect of those changes on those states' economies. He said that while it is always the goal of tax reform to be revenue neutral, there will always be certain taxpayers whose individual income tax liability will increase.

MOTION: Rep. McGee moved to ask the Legislative Management Committee to allow the Committee to study and make recommendations concerning changes to the individual income tax. The motion passed unanimously with Sen. Goodfellow and Pres. Valentine absent for the vote.

5. Other Items / Adjourn

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Sen. Bramble announced that at a future meeting the Committee will review the age-based uniform fees imposed on certain personal property required to be registered with the state.

MOTION: Rep. Moss moved to adjourn. The motion passed unanimously with Sen. Goodfellow and Pres. Valentine absent for the vote.

Chair Harper adjourned the meeting at 10:58 a.m.